

State of Wisconsin

Local Government Investment Pool Policies and Procedures Manual



Office of the State Treasurer

State of Wisconsin Investment Board

**STATE OF WISCONSIN
LOCAL GOVERNMENT INVESTMENT POOL
POLICIES AND PROCEDURES MANUAL**

Table of Contents

Local Government Investment Pool	1
Overview of Fund	1
Investment Objectives.....	1
Benefits of the Local Government Investment Pool.....	3
Risk Factors and Fund Limitations	5
Procedures.....	7
Eligibility	7
Setting up an Account.....	7
Changing an Existing Account	7
LGIP Website.....	8
Deposits.....	8
Withdrawals	9
Direct Payments to State Programs.....	9
Transfers	9
Monthly Statements and Calculations	10
Treatment of Earnings Calculation Errors	10
Special Procedures for Bond Proceeds	12
State Investment Fund Guidelines	13
Wisconsin Statutes Relating to Investments by Local Governments	16
Accounting Policies	25
Definitions.....	26

Local Government Investment Pool

Overview of Fund

Welcome to the State of Wisconsin Local Government Investment Pool (LGIP). The LGIP was created in 1975 to give local governments the opportunity to combine their idle cash to make short-term investments equal to those afforded to state government or large local governments. The LGIP has been designed to consistently maintain the integrity of local funds within a diversified and safe portfolio, provide liquidity, and offer rates of return competitive with comparable investments. The funds from the LGIP are combined with the cash balances of the State of Wisconsin and its agencies and the excess cash of the retirement funds invested by the State of Wisconsin Investment Board (SWIB) and managed as one fund called the State Investment Fund (SIF). Since its inception in 1975, the LGIP, which is managed by the State of Wisconsin Investment Board, has provided participating communities rates of return on their funds comparable to national money market funds during changing and challenging economic cycles.

Investment Objectives

The primary objective of the LGIP is to provide for the prudent management of public funds on behalf of the local government investor. While there can be no assurance that each investment in the LGIP will be successful, the strategy for meeting this objective is to apply the prudent investor standard and insure that the investment of pool assets is prioritized as follows: safety of principal, liquidity, and rate of return. SWIB tries to achieve the objectives of safety of principal and liquidity by evaluation of the quality of investment instruments, attention to maturity schedules, and emphasis on high marketability. SWIB seeks enhanced return through active portfolio management which considers probable changes in the general level of interest rates. SWIB may invest in obligations of the U.S. Treasury and its agencies, Commercial Paper, Bank Time Deposits/Certificates of Deposit, Bankers' Acceptances, Asset Backed Securities, and Repurchase Agreements secured by the U.S. Government or its agencies and other instruments authorized under the State Investment Fund Investment Guidelines. All securities must meet the criteria outlined in the formal investment guidelines, adopted by the SWIB Board of Trustees, which can be found in Appendix A of this manual.

Benefits of the Local Government Investment Pool

THE FOLLOWING ARE POTENTIAL BENEFITS TO LGIP PARTICIPANTS AND WERE PART OF THE RATIONALE FOR THE CREATION OF THE LOCAL GOVERNMENT INVESTMENT POOL (LGIP) BACK IN 1975.

Voluntary Participation

Participation in the Local Government Investment Pool is strictly voluntary.

Flexibility/Daily Liquidity

The LGIP provides an affordable, yet flexible, tool for cash management. The fund is invested primarily in short-term instruments that help provide liquidity for participants who need to use their money on short notice. Such investments are designed to contribute to the safety of the principal by attempting to minimize exposure to interest rate fluctuations over time. Local cash managers direct how much to invest in the LGIP and the length of time local funds are invested. Further, the lack of minimum denominations for investment coupled with daily liquidity gives the municipal participant flexibility in fine tuning its investment program while meeting its fiscal obligations.

Competitive Yields

By pooling investment funds, local governments may be able to realize generally higher yields over time. When local governments combine their excess capital, economies of scale result which allow such pools to obtain professional and technical expertise along with the purchasing power needed to create a diversified portfolio that may not be available to local governments as smaller individual accounts.

Low Costs

Administrative costs are minimized by pooling and expensed from the earnings accrual, thus making it unnecessary for cash managers to appropriate additional monies that could be invested.

Competitiveness

Because local governments are a major source of capital to the money markets, pooling may increase the competitiveness of financial institutions vying for local monies, therefore, potentially increasing efficiencies and rates on alternative investments.

Oversight

The basic operating policies of the LGIP are administered by the Office of the State Treasurer. The investments of the LGIP are managed by the professional investment staff of SWIB. The nine member Board of Trustees of SWIB has responsibility for setting guidelines and policies for the LGIP which can be found in Appendix A of this manual, and for providing oversight of the managers of the LGIP. By statute, one of the Trustees is the financial officer of an LGIP participant.

Safety

The primary investment objective of the LGIP is to provide a safe investment for local governments. Although no investment is guaranteed, the LGIP emphasizes diversifying the investment instruments as a means of limiting the risk of possible losses. In addition to the generally safe investment instruments utilized in the pool, Federal Deposit Insurance Corporation coverage for Certificates of Deposit generally applies to the proportionate public unit share of accounts, thereby reducing the uninsured portion of the deposit. If the LGIP has been designated as a public depository by the local governing body, the State of Wisconsin's Public Deposit Guarantee Fund created under Chapter 34 of the Wisconsin Statutes protects the depositing municipality against any losses of public funds up to \$400,000 subject to the total amount of the Guarantee Fund available.

Risk Factors and Fund Limitations

THE FOLLOWING LIST OF RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE EXPLANATION OF THE RISKS INVOLVED IN THE LGIP. PROSPECTIVE INVESTORS SHOULD READ THE ENTIRE MANUAL BEFORE DETERMINING TO INVEST IN THE LGIP.

Risk of Principal Loss

The SIF does contain investments which are subject to market risks. The success of any investment activity is affected by general economic conditions. In certain economic cycles, the fund may incur losses in certain investments. Should a liquidation of these investments occur, market losses would impact returns to investors. Depending on the extent of such liquidation and the size of such loss, participants may not receive a return of their entire principal invested.

Liquidity Risks

Combining state, local, and retirement funds in the SIF provides the LGIP with a high degree of liquidity. However, a number of risks exist that could adversely affect the liquidity of the LGIP, including:

1. The daily liquidity/withdrawal feature offered to LGIP participants creates the risk of having a significant number of pool participants make withdrawals from the pool simultaneously, which could adversely affect the liquidity of the LGIP.
2. The Secretary of Administration may temporarily loan surplus monies in the LGIP (monies that are not necessary for cash flow of the LGIP) to the state's general fund or segregated fund accounts that have insufficient monies to finance their activities but have accounts receivable balances or monies anticipated to be received from lottery proceeds, tax revenues, gifts, grants, interest earnings or other sources specified by statute. The state will pay interest on the borrowed LGIP monies at the SIF daily interest earnings rate (See Wis. Stat. § 20.002(11), found in Appendix B of this manual, for more detailed information).
3. Markets in which the SIF trades may experience limited liquidity and depth. This lack of depth could disadvantage the SIF, both in the realization of the prices which are quoted and in the execution of orders at desired prices. Illiquidity may make it difficult for the SIF to protect itself against adverse price movements when liquidating its positions.
4. Security exchanges and financial institutions typically have the right to suspend or limit trading due to unforeseen circumstances of event risk. Such limitations could render it difficult or impossible for the LGIP to invest or liquidate positions.

Illiquidity as a result of any of the aforementioned causes could result in losses and/or a delay in receiving funds invested in the LGIP.

Credit Risk Factors

LGIP participants may also be subject to other investment risks that are typical for funds similar to the SIF and the LGIP. These risks include the risk of default by an issuer.

Counterparty Risk

SWIB transacts its investment trades, pursuant to standard industry practices, with a wide array of primary broker and dealer arrangements. These institutions could encounter financial difficulties which could impair the operational capabilities or the capital position of the LGIP.

Impact on Local Economies

By using the LGIP, participants may be removing money from local economies and reducing funds available for use by community financial institutions. To offset this, the SIF investment guidelines allow up to \$500 million of the SIF to be invested in Wisconsin banks or thrifts. Therefore, by investing in the LGIP, funds are invested back into Wisconsin communities.

Past Performance No Guarantee

Past performance of the SIF and LGIP is no guarantee of future performance. Returns to fund participants may vary significantly as market conditions dictate.

Absence of Regulation

The LGIP is not registered, and does not intend to register, as an "investment company" under the Investment Company Act of 1940, and SWIB is not registered, and does not intend to register, as an "investment advisor" or as a commodity trading advisor or commodity pool operator under the Investment Advisors Act of 1940 or the Commodity Exchange Act, respectively. Consequently, investors will not have the benefit of the significant investor protection provisions of these statutes. However, the LGIP has adopted the restrictions set forth in the investment guidelines (found in Appendix A of this manual), and any changes to those guidelines will be sent to all participants. The Investment Company Act contains provisions which restrict registered investment companies from implementing a number of strategies. Furthermore, registered investment companies are prohibited from changing certain "fundamental" investment policies without the consent of investors. In the case of the LGIP, the investment guidelines may be amended without prior notice to investors.

Compatibility with Investment Policy

Every potential participant in the LGIP should review the investment policies set forth in this manual to determine if the fund's procedures, objectives, and policies are acceptable and consistent with the participant's needs, prior to investing. Any capital loss, as well as any capital gain, must be borne by all participants. Extraordinary losses and gains may, in the discretion of the manager, be restructured and spread over several periods as a means of reducing fluctuation of earnings to participants.

Procedures

Eligibility

Local governmental units within the state can participate in the LGIP on a voluntary basis. School districts, towns, villages, counties, cities and other special districts in addition to commissions, committees, boards or other subunits of these entities, are eligible to participate as provided in Wisconsin Statute 25.50. Participants make deposits and withdrawals in accordance with LGIP procedures as they see fit, and there is no commitment made to the LGIP by the participant as to the length of its investment in the LGIP.

Setting up an Account

The local governing body must designate the LGIP as a public depository (Form ST/97 titled "A Resolution"). Chapter 34 of the Wisconsin Statutes deals with public deposits. Governments in Wisconsin are allowed to make deposits in the LGIP if they designate the fund by resolution as provided in Wisconsin Statute. 34.05.

A written notice must be mailed to the Office of the State Treasurer indicating the local government's desire to participate, and the name of the local official authorized to make deposits and withdrawals (ST/82 titled "Designation Account and Withdrawal Instructions"). Up to fifteen different accounts can be designated with different instructions. Only one option (wire or check) may be selected for both deposit and withdrawal in each account.

Forms "A Resolution" and "Designation Account and Withdrawal Instructions" can be found at the Office of the State Treasurer's website (www.statetreasury.wisconsin.gov) or obtained by contacting the Office of the State Treasurer. Please allow three business days for your LGIP account to be set up. The pool administrator will notify you by phone when your account has been established.

Changing an Existing Account

All changes in the account name, address, phone, and names of persons authorized to access the account must be made in writing and sent to the Office of the State Treasurer by mail, fax, or email.

Changes in bank destination accounts for wire transfer withdrawals must be accompanied by a deposit ticket or a verification letter provided on bank letterhead to the Office of the State Treasurer.

LGIP Website

Only persons designated by the LGIP participant may register to use the website. All website users must be approved by the Office of the State Treasurer. The LGIP website contains information about a participant's account such as account balances, transaction history, and monthly statements. Participants can schedule transactions on the website as well. To register as a user, visit the Office of the State Treasurer's website at www.statetreasury.wisconsin.gov.

Deposits

PLEASE NOTE

*There are no minimum or maximum dollar limits for deposits. However, to enhance investment performance for all LGIP participants, please notify the Office of the State Treasurer, at least one day prior to the transaction date, of any deposits in excess of **\$10 million**.*

Deposits by wire will be credited on the same business day, if notification is received by 11:00 a.m. Credit will be given on the following business day if notification is received after 11:00 a.m. Please advise the Office of the State Treasurer by scheduling the transaction on the website, or by calling (608) 266-1716 (toll free 877-947-7665), by fax (608) 266-2647, or by email to LGIP@ost.state.wi.us.

Contact your bank to request a wire transfer into your LGIP account. Transfer the money to:

US Bank Wisconsin, N.A.
777 E. Wisconsin Avenue
Milwaukee, WI 53202
ABA #0750 0002 2
Treasurer, State of Wisconsin
Account #111 851 166

Deposits by check will be credited on the date of receipt at the Office of the State Treasurer. Include depositor number and subaccount number with all check deposits.

Mail to:

Office of the State Treasurer
1 South Pinckney Street, Suite 550
P.O. Box 7871
Madison, WI 53707-7871

Withdrawals

PLEASE NOTE

There are no minimum or maximum dollar limits for withdrawals. However, to enhance investment performance for all LGIP participants, please notify the Office of the State Treasurer, at least one day prior to the transaction date, of any withdrawals in excess of \$10 million.

Withdrawals will be completed on the same business day, if notification is received by 11:00 a.m. Withdrawals will be completed on the following business day if notification is received after 11:00 a.m. Please advise the Office of the State Treasurer by scheduling the transaction on the website, by calling (608) 266-171 (toll free 877-947-7665), by faxing to (608) 266-2647, or by emailing to LGIP@ost.state.wi.us

Wire withdrawals can be sent only to pre-approved destination accounts. When adding a destination account, participants must provide written notice of the complete wire instructions for each, including the bank name, routing number, and participant's account number. In addition, participants must provide documentation (such as a deposit ticket or monthly statement) that shows the name on the account. Each participant may have up to ten destination accounts. Any changes to existing destination account instructions must be submitted in writing. Please allow up to seven days before using a new destination account.

Check withdrawals will be dated and mailed first class, on the same business day as the statement transaction date. Checks will be mailed to the participant's address as designated on the "Designation Account and Withdrawal Instructions" form on file at the Office of the State Treasurer.

Direct Payments to State Programs

Funds may be withdrawn and paid directly from a participant's account to the following state programs: Trust Fund Loan Program, Forestry Mill Tax Levy, and Clean Water Loan Program. The participant may designate a destination state program to receive the withdrawal (payment) instead of a bank. This option is only available to those participants electing to do business by wire.

Transfers

Transfers between subaccounts will be completed on the same business day, if notification is received at the Office of the State Treasurer by 11:00 a.m.

Monthly Statements and Calculations

The Office of the State Treasurer maintains detailed records on all accounts. Each local government may maintain up to fifteen accounts in the LGIP. Participants may review all records at anytime.

Monthly statements will usually be issued within the first seven working days after month end. The monthly statements detail transactions occurring in the prior month and earnings on the average balance of the account. Participants in the LGIP earn interest daily. If money is deposited with the LGIP for one day, it receives its pro rata portion of interest earnings for that day. Interest is credited and posted to participants' accounts monthly. Allocations are determined by each participant's average daily balance for the month in the LGIP. This amount is multiplied by the monthly interest rate (net of administrative expenses) to calculate the earnings for the month as shown below:

1. Determine number of days in the month.
2. Multiply beginning balance times number of days in month - this gives the beginning cumulative balance.
3. FOR DEPOSIT: From end of month's Julian date, subtract date of deposit's Julian date. Add one for inclusive. This sum times the deposit is added to the cumulative balance.
4. FOR WITHDRAWAL: Same calculation as for deposit. The amount is then subtracted from the cumulative balance.
5. At end of month, divide the ending cumulative balance by the number of days in the month. This amount is the average daily balance for the month.
6. The average daily balance for the month is multiplied by the posted monthly interest rate times the number of days in the month divided by the actual number of days in the year. This amount is the monthly interest credited to the account.

Treatment of Earnings Calculation Errors

While significant precautions are taken to avoid errors in the monthly calculations of earnings, errors may occur. When they do, a policy is in place which governs how errors will be corrected. The policy categorizes errors within three materiality thresholds, as follows:

1. Any error which impacts the monthly earnings rate by $12/100^{\text{th}}$ of one percent will be retroactively adjusted in the earnings of the month for which it occurred.
2. Any error which is between $12/100^{\text{th}}$ and $6/100^{\text{th}}$ of one percent may be retroactively adjusted in the earnings of the month for which it occurred if, in consultation with the State Controller, it is determined that any fund is materially harmed by the error based on changes in relative share balances of the participating funds. No retroactive adjustment of less than \$2.00 will be made to any LGIP account.
3. Any error which is less than $6/100^{\text{th}}$ of a percent will be considered non-material and the correction will be made in the current month's earnings.

In some months the relative share balances of the fund participants remains relatively unchanged from the previous month. For instance, participant ABC owned .10% of the fund in March, when an error occurred, and .10% of the fund in April. In this case it makes no difference if an adjustment is made retroactively, or is based upon the current month's principal balances. The amount of the adjustment would have been exactly the same regardless of when the earnings adjustment is recognized.

Any adjustment requires additional administrative expenses which are ultimately shared by all participants. Therefore, it is in all participants' best interests to strike a balance between the desire for absolute accuracy and the fiduciary requirement to ensure the fund is managed equitably. The above policy provides for that balance.

To help visualize how the above policy will be administered, the following examples have been provided:

Example #1: Assume that the total LGIP has a balance of \$2.5 billion and that a participant's balance increased from \$2.5 million to \$2.6 million from March to April respectively, or an increase from .10% to .104% of the pool. If the earnings in March were originally stated at 5.34%, but they should have been stated at 5.39%, an error of $5/100^{\text{th}}$ of a percent would have occurred. In this case, the pro rata share of the error for the participant would have been \$104.17 as originally calculated ($\$2.5 \text{ million} \times .0005/12 \text{ months}$). But, because the error was not material (less than $6/100^{\text{th}}$ of a percent) the adjustment would be made based on the April balances and the participant would receive \$108.33 in adjusted earnings ($\$2.6 \text{ million} \times .0005/12$) on their April statement.

Example #2: If, in the above example, an understatement of $9/100^{\text{th}}$ of a percent occurred, and in consultation with the State Controller it is determined that the relative share balances of the participating funds have changed to the extent that any fund is harmed, then a retroactive adjustment to the participant balances would be made. In this case, the participant would receive a separately itemized credit of \$187.50 ($\$2.5 \text{ million} \times .0009/12$) on their next account statement depicting the adjustment as pertaining specifically to March earnings.

Whenever an error is determined to be material and a retroactive adjustment is made to participants' accounts, a separate itemization of that adjustment will disclose the correction on the monthly account statement.

Finally, earnings are always stated as an annualized rate, even though they pertain to a single month. For example, a rate stated as 6% for April is actually 0.5% ($6\%/12 \text{ months}$) of earnings for the month. Therefore, an error of $12/100^{\text{th}}$ of a percent annualized in actuality equates to $1/100^{\text{th}}$ of a percent error adjustment for the month's earnings.

The Office of the State Treasurer and the State of Wisconsin Investment Board are committed to providing the LGIP participants with the highest quality level of service at the most efficient cost that is reasonably attainable.

Special Procedures for Bond Proceeds

Bond proceeds or other segregated funds may be deposited into the LGIP, but are subject to federal arbitrage regulations. The 1986 Tax Reform Act requires many local governments to rebate investment income in excess of their bond yields. Participants should contact their bond counsel to assure their compliance with these regulations. Principal and interest on bond issues can be paid directly to a fiscal agent or depository within the following guidelines:

1. The "Authorization for Monies to be Wired to Fiscal Agent" Form ST-16 must be completed and signed by the appropriate official of the governing board prior to the establishment of the new destination. This form can be obtained on the Office of the State Treasurer's website (www.statetreasury.wisconsin.gov) or by contacting the Office of the State Treasurer.
2. In addition to the authorization form, the Office of the State Treasurer must also be furnished with a copy of the bond resolution which identifies the fiscal agent or depository.
3. Only the individuals previously authorized on form ST/97 may request transfers.
4. Additional destinations established for this purpose must not exceed the permitted total of ten.
5. An established destination may not be changed prior to the maturity date as indicated on the bond resolution.

For More Information About the
Local Government Investment Pool

Please Call or Write:

Office of the State Treasurer
1 South Pinckney Street, Suite 550
P.O. Box 7871
Madison, WI 53707-7871

Phone: (608) 266-1716
Phone (toll free): (877) 947-7665
Email: LGIP@ost.state.wi.gov

State Investment Fund Guidelines

Description: The State Investment Fund (SIF) is the investment vehicle for cash and short-term investments of various state and local government funds, including that portion of the Core Fund and the Variable Fund.

Investment Objectives: In order of importance:

1. Safety of principal
2. Liquidity
3. Competitive money market returns as defined by a benchmark of 70% 3-month T-Bills/30% One-Month CD yield.

Investment Guidelines (maturity, issuer and credit quality exposure limits are to be applied at the time of purchase):

ASSET ALLOCATION (Percent of Portfolio at Par Value)

Treasuries, Agencies & Repurchase Agreements	50-100%
Commercial Paper and Notes	0-30%
Certificates of Deposit/Time Deposits	0-30%
Yankee/Euro Certificates of Deposit/Time Deposits (U.S. Dollars)	0-10%

MATURITY GUIDELINES (Maximum)

The portfolio weighted average maturity will not exceed one year, consistent with portfolio purpose and objectives. Maturity of floating rate securities shall be based on interest rate reset dates except as specified below.

The following maturity limits shall apply to each instrument.

Repurchase Agreement Gov't/Agency Collateral	10 years
Treasuries and Agencies	5 years
Commercial Paper	270 days
Commercial Notes	3 years
Certificates of Deposit/Time Deposits	3 years

Yankee/Euro Certificates of Deposit/Time Deposits	1 years
Reverse Repurchase Agreements	1 day

CREDIT QUALITY / ISSUER EXPOSURE
(Maximum Size at Par Value)

The maximum exposure for each issuer/guarantor shall be in the aggregate (unless specified as per issue) as follows.

Repurchase Agreements (Gov't/Agency Collateral)	No limit
U.S. Treasury Bills and U.S. Agency Discount Notes	No limit
U.S. Treasury Notes (per issue)	\$500 million
U.S. Agency Notes (per issue)	\$250 million
A1+, P1 Rated Commercial Paper and AAA Long Term Rating	\$100 million
A1+, P1 Rated Commercial Paper and AA Long Term Rating	\$75 million
A1+ or P1 or F1+ Rated Commercial Paper	\$ 50 million
A1 or P1 or F1+ Rated Commercial Paper	\$ 25 million
AAA Rated Corporate Note	\$100 million
AA Rated Corporate Note	\$ 25 million
Bank Instrument Rated A by Fitch, AAA by S&P or Aaa by Moody's	\$100 million
Bank Instrument Rated A/B by Fitch, AA by S&P or Aa by Moody's	\$ 50 million
Bank Instrument Rated B by Fitch, A by S&P or A by Moody's	\$ 25 million
Wisconsin Certificate of Deposit Program – individual bank (unless a higher limit from another category applies)	\$ 10 million or 3% of assets, whichever is less
Reverse Repurchase Agreements	\$200 million

Make any other legal investment that is specifically approved by the Trustees.

SIF WISCONSIN CERTIFICATE OF DEPOSIT (CD) PROGRAM

Up to \$500 million may be invested in Wisconsin banks or thrifts subject to the following guidelines:

1. The bank/thrift qualifies for “pass-through” insurance by being classified as “well capitalized” by the FDIC or “adequately capitalized” with an FDIC waiver which states the institution qualifies for “pass-through” insurance.
2. The total dollar amount invested by SWIB in the CD’s of any individual bank/thrift shall not exceed the lesser of \$10,000,000 or three (3%) percent of reported assets of the individual bank/thrift, providing that the total dollar amount invested by SWIB in any individual holding company (when investing in the CD’s of the bank/thrifts of the holding company) shall not exceed \$30 million, unless the total dollar amount of CD investment in the program is less than \$500 million.

3. The maturity limit for the program shall be not greater than 3 years.

Wisconsin Statutes Relating to Investments by Local Governments

Wisconsin Statutes 25.14 and 25.17 create and govern the State Investment Fund.

25.14 State investment fund. (1) There is created a state investment fund under the jurisdiction and management of the investment board (hereinafter referred to as "board") to be operated as an investment trust for the purpose of managing the securities of all the state's funds consisting of the funds specified in s. 25.17 (1) except the state life fund, fixed retirement investment trust, variable retirement investment trust, capital improvement fund, bond security and redemption fund, state building trust fund, the state housing authority reserve fund, the children's trust fund, the patients compensation fund, funds which under article X of the constitution are controlled and invested by the board of commissioners of public lands, funds which are required by specific provision of law to be controlled and invested by any other authority, the university trust funds and the trust funds of the state universities except that the respective authorities controlling the investment of any such excluded fund may authorize the transfer of any temporary cash assets of any such excluded fund to the state investment fund in accordance with subs. (2) and (3).

(2) At such time as the board determines, all of the securities held by any of the state's funds, except those specifically excluded in sub. (1), shall be transferred, at the market value plus accrued as of the date of transfer, to the state investment fund together with such amounts of cash as may be required to provide each contributing fund an equity in the state investment fund which may be expressed in terms of even thousands of dollars. Thereafter, the department of administration shall make such subsequent transfers of money between the individual funds and the state investment fund as in its judgment is advisable and in accordance with cash requirements of the individual funds, such transfer to be made on the basis of even thousands of dollars, and it shall furnish to the board such information with respect to daily balances of individual funds within the investment fund as may be required.

(3) The department of administration, upon consultation with the investment board, shall distribute all earnings, profits or losses of the state investment fund to each participating fund in the same ratio as each such fund's average daily balance within the state investment fund bears to the total average daily balance of all participating funds, except as provided in s. 14.58 (19), except that the department of administration shall credit to the appropriation account under s. 20.585 (1) (js) an amount equal to the amount assessed under s. 25.19 (2) from the earnings or profits of the fund against which an assessment is made and except that the department of administration shall credit to the appropriation account under s. 20.585 (1) (jt) an amount equal to the amount assessed under s. 25.19 (3) from the earnings or profits of the funds against which an assessment is made. Such distribution shall be made at such times as the department of administration may determine, but must be made at least semiannually in each complete fiscal year of operation.

(4) The department of administration shall maintain such records as may be required to account for each contributing fund's share in the state investment fund.

(5) The assets of the state investment fund shall be invested as prescribed by s. 25.17 (3) (b), (ba) and (bd).

25.17 Powers and duties of board. The "State of Wisconsin Investment Board" shall be a body corporate with power to sue and be sued in said name. The board shall have a seal with the words, "State of Wisconsin Investment Board". The board shall:

(3) (b) Invest any of the funds over which it has investment authority, including but not limited to the state investment fund and surplus funds of the state building trust fund not invested under sub. (2) (b) and not in the state investment fund, in:

1. Direct obligations maturing within 10 years or less from the date of settlement, of the United States or its agencies, corporations wholly owned by the United States, the International Bank for Reconstruction and Development, the International Finance Corporation, the Inter-American Development Bank, the African Development Bank, the Asian Development Bank, the Federal National Mortgage Association or any corporation chartered by an act of congress.

2. Securities maturing within 10 years or less from the date of settlement, guaranteed by the United States or, where the full faith and credit of the United States is pledged or, where securities are collateralized by government-insured investments or, where the securities are issued by a corporation created by act of congress and regulated by such act.

3. Unsecured notes of financial and industrial issuers maturing within 5 years or less from the date of settlement and having one of the 2 highest ratings given by a nationally recognized rating service, but if the corporation issuing such notes has any long term senior debt issues outstanding which also have been rated, the rating must be one of the 3 highest ratings so given.

4. Certificates of deposit issued by banks located in the United States and by savings and loan associations, savings banks and credit unions located in this state.

5. Bankers acceptances accepted by banks located in the United States.

6. Direct obligations of or guaranteed by the government of Canada maturing within 2 years from the date of settlement provided that at the time of purchase the board enters into a contract with a bank or securities dealer in the United States or Canada providing that at the maturity of the obligation the Canadian dollars will be exchanged into U.S. dollars at a guaranteed rate of exchange.

7. Certificates of deposit of at least \$100,000 issued by solvent financial institutions in this state. The board shall promulgate rules to determine solvency on the basis of assets, capital, surplus, undivided profits and net worth of a financial institution.

8. Bonds issued by a local exposition district under subch. II of ch. 229.

(ba) Invest the funds included in the state investment fund created by s. 25.14 in loans upon collateral security in the form of direct obligations of the U.S. government having a maturity of 5 years or less where the principal amount of each such loan does not exceed 98% of the market value of such collateral security.

(bd) Have authority to invest any funds includable in the state investment fund in loans, securities or investments which are in addition to those permitted under any other statute but within the board standard of responsibility under s. 25.15 (2). The total amount of loans, securities and investments made under this paragraph may not exceed 10% of the aggregate value of all funds includable in the state investment fund under s. 25.14 (1) at the time that the investment is made.

Wisconsin Statute 25.50 creates and governs the Local Government Investment Pool. This statute and section 66.04(2)(c) authorize local government participation in the LGIP.

25.50 Local government pooled-investment fund.

(1) DEFINITIONS. In this section:

- (a) "Board" means the state investment board.
- (b) "Fund" means the local government pooled-investment fund.
- (c) "Local funds" means funds under the control or in the custody of any local government or local official that are not required to meet current expenditures or demands.
- (d) "Local government" means any county, town, village, city, power district, sewerage district, drainage district, town sanitary district, public inland lake protection and rehabilitation district, public library system, school district or technical college district in this state, any commission, committee, board or officer of any governmental subdivision of this state, any court of this state, other than the court of appeals or the supreme court, or any authority created under s. 231.02 or 234.02.
- (e) "Local official" means each officer or employee of a local government who by law or vote of the governing body of the local government is made the custodian of funds.

(2) CREATION. There is established within the state investment fund a local government-pooled investment fund with a separate and identifiable account within the fund for each local government.

(3) LOCAL GOVERNMENTS AUTHORIZED TO PLACE FUNDS IN POOL.

- (a) With the consent of the governing body, a local official may transfer local funds to the state treasurer for deposit in the fund.
- (b) On the dates specified and to the extent to which they are available, subject to s. 16.53 (10), funds payable to local governments under ss. 79.03, 79.04, 79.05, 79.058, 79.06, 79.08 and 79.10 shall be considered local funds and, pursuant to the instructions of local officials, may be paid into the separate accounts of all local governments established in the local government pooled-investment fund and, pursuant to the instructions of local officials, to the extent to which they are available, to be disbursed or invested.

(4) PERIOD OF INVESTMENTS; WITHDRAWAL OF FUNDS. Subject to the right of the local government to specify the period in which its funds may be held in the fund, the state treasurer shall prescribe the mechanisms and procedures for deposits and withdrawals.

(5) INVESTMENT POLICIES. The investment board shall formulate policies for the investment and reinvestment of moneys in the fund and the acquisition, retention, management and disposition of such investments.

(6) INVESTMENT BOARD TO INVEST, REINVEST POOLED FUNDS. In the amounts available for investment purposes and subject to the policies formulated by the investment board, the investment board shall invest and reinvest moneys in the fund and acquire, retain, manage, including the exercise of any voting rights, and dispose of investments of the fund.

(7) REIMBURSEMENT OF EXPENSES. The state treasurer shall deduct quarterly a maximum of 0.25% of the amount of income received from the earnings of the fund during the preceding calendar quarter for all actual and necessary expenses incurred by the state in administering the fund.

(8) SEPARATE ACCOUNTS.

(a) The department of administration shall keep a separate account for each local government and shall record the individual accounts and the totals of all investments of each local government's moneys in the fund,

(b) The state treasurer shall report monthly to each local official the deposits and withdrawals of the preceding month and any other activity within the account.

(c) For each municipality that invests in the fund surplus debt service funds under s. 67.11 (2) (d), the department of administration shall keep separate accounts for such surplus debt service funds and for all local funds of the municipality that are invested in the fund.

(9) RULES. The state treasurer may promulgate rules to carry out the purposes of this section.

(10) INSURANCE OF PRINCIPAL. The state treasurer may obtain insurance for the safety of the principal investments of the fund.

Section 66.04(2) also defines permissible investments for municipalities in Wisconsin. Statutes 34.01, 34.05 and 34.06 discuss designation of public depositories.

34.01 Definitions. In this chapter:

(1) "Governing board" means the investment board in the case of the state, the housing and economic development authority if the authority elects to be bound by all or part of this chapter under s. 234.32 (2), the county board or committee designated by the county board to designate public depositories in the case of a county, the city council in the case of a city, the village board in the case of a village, the town board in the case of a town, the school board in the case of a school district, the board of control in the case of a cooperative educational service agency, the clerk of court in the case of any court in this state, and any other commission, committee, board or officer of any governmental subdivision of the state not mentioned in this subsection.

(2) "Loss" means any of the following:

(a) Any loss of public moneys, which have been deposited in a designated public depository in accordance with this chapter, resulting from the failure of any public depository to repay to any public depositor the full amount of its deposit because the commissioner of credit unions, administrator of federal credit unions, commissioner of banking, U.S. comptroller of the currency, federal home loan bank board, U.S. office of thrift supervision, federal deposit insurance corporation, resolution trust corporation or commissioner of savings and loan has taken possession of the public depository or because the public depository has, with the consent and approval of the commissioner of credit unions, administrator of federal credit unions, commissioner of banking, U.S. office of thrift supervision, federal deposit insurance corporation, resolution trust corporation or commissioner of savings and loan, adopted a stabilization and readjustment plan or has sold a part or all of its assets to another credit union, bank, savings bank or savings and loan association

which has agreed to pay a part or all of the deposit liability on a deferred payment basis or because the depository is prevented from paying out old deposits because of rules of the commissioner of credit unions, administrator of federal credit unions, commissioner of banking, U.S. comptroller of the currency, federal home loan bank board, U.S. office of thrift supervision, federal deposit insurance corporation, resolution trust corporation or commissioner of savings and loan.

(b) With respect to public moneys deposited in the local government pool investment in addition to a loss as described in par. (a), the public depositor's proportionate share of any loss of principal invested or reinvested by the investment board under s. 25.50 (6).

(3) "Public deposit" means public moneys deposited by a public depositor in a public depository, including private moneys held in trust by a public officer.

(4) "Public depositor" means the state or any county, city, village, town, drainage district, power district, school district, cooperative educational service agency, sewer district, or any commission, committee, board or officer of any governmental subdivision of the state or any court of this state, a corporation organized under s.39.33 or the housing and economic development authority if the authority elects to be bound by all or part of this chapter under s. 234.32 (2), which deposits any moneys in a public depository.

(5) "Public depository" means a federal or state credit union, federal or state savings and loan association, state bank, savings and unit company, federal or state savings bank, or national bank in this state which receives or holds any public deposits or the local government pooled-investment fund.

(6) "Public moneys" means all moneys coming into the hands of the treasurer of a public depositor by virtue of his or her office without regard to the ownership of the moneys.

(7) "Treasurer" means any duly elected, appointed or acting official or employee of a public depositor whose duties require that he or she receive and account for public moneys.

34.05 Designation of public depositories.

(1) Except as provided in sub. (4), the governing board of each public depositor shall, by resolution, designate one or more public depositories, organized and doing business under the laws of this state or federal law and located in this state, in which the treasurer of the governing board shall deposit all public moneys received by him or her and specify whether the moneys shall be maintained in time deposits or savings deposits subject to the limitations of ss. 66.04 (2), demand deposits or savings deposits and whether a surety bond or other security shall be required to be furnished under s. 34.07 by the public depository to secure the repayment of such depository for all treasurers of the governing board and for all public depositors for which each treasurer shall act.

34.06 Liability of treasurers. Notwithstanding any other provision of law, a treasurer who deposits public moneys in any public depository, in compliance with s. 34.05, is thereby relieved of liability for any loss of public moneys which results from the failure of any public depository to repay to the public depositor the full amount of its deposits thus causing a loss as defined in s. 34.01(2).

66.04 Appropriations.

(2) INVESTMENTS. (a) Any county, city, village, town, school district, drainage district, technical college district or other governing board as defined by s. 34.01 (1) may invest any of its funds not immediately needed in any of the following:

1. Time deposits in any credit union, bank, savings bank, trust company or savings and loan association which is authorized to transact business in this state if the time deposits mature in not more than 3 years.

2. Bonds or securities issued or guaranteed as to principal and interest by the federal government, or by a commission, board or other instrumentality of the federal government.

3. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of this state.

3m. Bonds issued by a local exposition district under subch. II of ch. 229.

4. Any security which matures or which may be tendered for purchase at the option of the holder within not more than 7 years of the date on which it is acquired, if that security has a rating which is the highest or 2nd highest rating category assigned by Standard & Poor's corporation, Moody's investors service or other similar nationally recognized rating agency or if that security is superior to, or on a parity with, a security of the same issuer which has a such a rating.

5. Securities of an open-end management investment company or investment trust, if the investment company or investment trust does not charge a sales load, if the investment company or investment trust is registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, and if the portfolio of the investment company or investment trust is limited to the following:

a. Bonds and securities issued by the federal government or a commission, board or other instrumentality of the federal government.

b. Bonds that are guaranteed as to principal and interest by the federal government or a commission, board or instrumentality of the federal government.

c. Repurchase agreements that are fully collateralized by bonds or securities under subd. 5. a. or b.

(b) Any town, city or village may invest surplus funds in any bonds or securities issued under the authority of the municipality, whether the bonds or securities create a general municipality liability or a liability of the property owners of the municipality for special improvements, and may sell or hypothecate the bonds or securities. Funds of any employer, as defined by s. 40.02 (28), in a deferred compensation plan may also be invested and reinvested in the same manner authorized for investments under s. 881.01 (1).

(c) Any local government, as defined under s. 25.50 (1) (d), may invest surplus funds in the local government pooled-investment fund. Cemetery care funds, including gifts where the principal is to be kept intact, may also be invested under ch. 881.

(d) Any county, city, village, town, school district, drainage district, technical college district, or other governing board as defined by s. 34.01 (1), may engage in financial transactions in which a repository, as defined in s. 34.01 (5), agrees to repay funds advanced to it by the local government plus interest, if the agreement is secured by bonds or securities issued or guaranteed as to principal and interest by the federal government.

(2m) DELEGATION OF INVESTMENT AUTHORITY. Any county, city, village, town, school district, drainage district, technical college district or other governing board, as defined in s. 34.01 (1), may delegate the investment authority over any of its funds not immediately needed to a state or

national bank, or trust company, which is authorized to transact business in this state if all of the following conditions are met:

- (a) The institution is authorized to exercise trust powers under s. 221.04 (6) or ch. 223.
- (b) The governing board renews annually the investment agreement under which it delegates its investment authority, and reviews annually the performance of the institution with which its funds are invested.

Wisconsin Statutes 20.002 (11) allow temporary borrowing of funds from the LGIP

20.002(11)

(11) Temporary reallocation of surplus moneys.

20.002(11)(a)

(a) All appropriations, special accounts and fund balances within the general fund or any segregated fund may be made temporarily available for the purpose of allowing encumbrances or financing expenditures of other general or segregated fund activities which do not have sufficient moneys in the accounts from which they are financed but have accounts receivable balances or moneys anticipated to be received from lottery proceeds, as defined in s. 25.75 (1) (c), tax revenues, gifts, grants, fees, sales of service, or interest earnings recorded under s. 16.52 (2). The secretary of administration shall determine the composition and allowability of the accounts receivable balances and anticipated moneys to be received for this purpose in accordance with s. 20.903 (2) and shall specifically approve the use of surplus moneys from the general or segregated funds after consultation with the appropriate state agency head for use by specified accounts or programs. The secretary of administration shall reallocate available moneys from the budget stabilization fund under s. 16.465 prior to reallocating moneys from any other fund.

20.002(11)(b)

20.002(11)(b)1.

1. The secretary of administration shall limit the total amount of any temporary reallocations to a fund other than the general fund to \$400,000,000.

20.002(11)(b)2.

2. Except as provided in subd. 3, the secretary of administration shall limit the total amount of any temporary reallocations to the general fund at any one time during a fiscal year to an amount equal to 5% of the total amounts shown in the schedule under s. 20.005 (3) of appropriations of general purpose revenues, calculated by the secretary as of that time and for that fiscal year.

20.002(11)(b)3.

3. In addition to the amount permitted for temporary reallocations in subd. 2., the secretary may permit an additional 3% of the total amounts shown in the schedule under s. 20.005 (3) of appropriations of general purpose revenues, calculated by the secretary as of that time and for that fiscal year, to be used for temporary reallocations to the general fund but only if the reallocation is for a period not to exceed 30 days. Reallocations may not be made under this subdivision for consecutive periods.

20.002(11)(b)4.

4. This paragraph does not apply to reallocations from the budget stabilization fund to the general fund.

20.002(11)(c)

(c) The secretary may assess a special interest charge against the programs or activities utilizing surplus moneys within the same fund under this subsection in an amount not to exceed the daily interest earnings rate of the state investment fund during the period of transfer of surplus moneys to other accounts or programs. Except as provided in s. 16.465, the secretary shall assess a special interest charge against the fund utilizing surplus moneys under this subsection in an amount equal to the rate of return the state investment fund earnings would have created to the fund from which the reallocation was made. This interest shall be calculated and credited to the appropriate fund at the same time the earnings from the state investment fund are distributed and shall be considered an adjustment to those earnings.

20.002(11)(d)

(d) This subsection applies only to those funds participating in the investment fund for purposes of temporary reallocation between funds or accounts and does not include the following funds or specified accounts in these funds:

20.002(11)(d)1.


1. The bond security and redemption fund under s. 18.09.

20.002(11)(d)2.

2. The capital improvement fund under s. 18.08.

20.002(11)(d)2m.

2m. The election administration fund.

20.002(11)(d)3. 

3. The industrial building construction loan fund under s. 560.10, 2005 stats.

20.002(11)(d)4.

4. All trust funds authorized under ch. 40.

20.002(11)(d)5.

5. The veterans trust fund under s. 25.36.

20.002(11)(d)6.

6. The state housing authority reserve fund under s. 25.41.

20.002(11)(d)7.

7. The fish and wildlife account within the conservation fund.

20.002(11)(e)

(e) The secretary of administration may not exercise the authority granted in this subsection if a

temporary reallocation would jeopardize the cash flow of any fund or account from which a temporary reallocation would be made.

20.002(11)(f)

(f) If the secretary of administration exercises or proposes to exercise the authority granted in this subsection, he or she shall publish and transmit a report to the chief clerk of each house of the legislature, for distribution to the appropriate standing committees under s. 13.172 (3), on a monthly basis specifying the date, amount, source and use of any outstanding temporary reallocation or proposed reallocation of moneys for the period covered by the report.

The Attorney General's Office of the State of Wisconsin serves as the General Counsel to the Local Government Investment Pool.

Accounting Policies

The State Investment Fund is accounted for using the flow of economic resources measurement focus and the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable. Security transactions and related gains and losses are recorded on a trade date basis. Interest income is accrued as earned.

All investments are valued at amortized cost for purposes of calculating income to participants. The market value information provided in various reports is compiled by the custodial bank utilizing external pricing sources.

Management operating expenses are the State of Wisconsin Investment Board's administrative costs, which are allocated to the State Investment Fund participants. The Office of the State Treasurer costs are allocated to the participants of the Local Government Investment Pool.

Definitions

Average Daily Balance

The total of the balance at the end of each day during a period divided by the number of days in the period.

Bankers Acceptance

A short-term negotiable discount note. Bankers Acceptances (BA's) are drawn on and accepted by banks, which are obliged to pay the face value amount at maturity.

Certificates of Deposit

An interest bearing negotiable time deposit of fixed maturity at a commercial bank.

Commercial Paper

The market name for short-term, unsecured promissory notes which are exempt from registration with the SEC.

FDIC

Federal Deposit Insurance Corporation. The FDIC preserves and promotes public confidence in the U.S. financial system by insuring certain deposits in banks and thrift institutions; by identifying, monitoring and addressing risks to the deposit insurance funds; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails.

Local Government Investment Pool

This fund is the aggregate of all funds from political subdivisions that are placed in the custody of the Office of the State Treasurer for investment by the State of Wisconsin Investment Board.

Mortgage Backed Securities

An ordinary bond backed by an undivided interest in a pool of mortgages or trust deeds. Income from the underlying mortgages is used to pay off the securities.

Repurchase Agreements

A collateralized investment. A customer buys a group of securities from a broker-dealer under the provision that the broker-dealer will buy them back at a predetermined date for a specified price.

Reverse Repurchase Agreement

A collateralized investment. A customer sells a group of securities to a broker-dealer under the provision that the customer will buy them back by a predetermine date for a specified price.

State Investment Fund

This fund is the combination of cash balances from the State of Wisconsin and its agencies, the State of Wisconsin Investment Board, and the Local Government Investment Pool.

Time Deposit

A money deposit at a banking institution for a certain period of time.

U.S. Agencies

An agency chartered by the U.S. Government to serve the public purposes specified by Congress. Payment of the principal and interest may or may not be guaranteed by the full faith and credit of the U.S. Government itself.

U.S. Treasury Bill

U.S. Treasury short-term discount security guaranteed by the full faith and credit of the U.S. Government.

U.S. Treasury Note

U.S. Treasury coupon issues with original maturities up to 10 years guaranteed by the full faith and credit of the U.S. Government.

Yankee/Euro

An obligation of a foreign issuer payable in U.S. dollars and registered with the SEC.